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October 31, 2000

Hand Delivery

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

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**FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY**

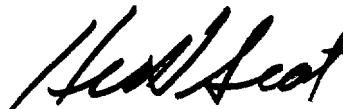
Re: EX PARTE -- CC Docket No. 00-176; Application of Verizon
Pursuant to Section 271 of the Telecommunications Act of 1996 to
Provide InterLATA Services in Massachusetts

Dear Ms. Salas:

Brad Stillman and I of WorldCom, Inc. and Mark Schneider of Jenner & Block met sequentially with Rebecca Beynan, legal advisor to Commissioner Furchtgott-Roth; Deena Shetler, legal advisor to Commissioner Tristani; Jordan Goldstein, legal advisor to Commissioner Ness; and Kyle Dixon, legal advisor to Commissioner Powell on October 30, 2000; and we met on October 31, 2000 with Anna Gomez, legal advisor to Chairman Kennard. In each meeting we discussed the status of Verizon's section 271 application for Massachusetts, the October 13, 2000 tariff filed by Verizon, and the impact of rates on the viability of UNE-P competition in the state, as set forth in the attached materials which were provided at each meeting.

In accordance with section 1.1206 of the Commission's rules, 47 C.F.R. § 1.1206, an original and one copy of this Notice are being filed with your office.

Sincerely,



Keith L. Seat

Enclosure

cc (w/o encls.): Rebecca Beynan, Deena Shetler, Jordan Goldstein, Kyle Dixon, Anna Gomez

cc: (w/encls.): Susan Pie, Josh Walls and Cathy Carpino

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Verizon's 271 Application for Massachusetts Should Be Denied:

**Verizon's Non-Cost-Based UNE Prices Create
Price Squeeze Preventing Robust Local Exchange
Telephone Competition in Massachusetts**

October 31, 2000

WorldCom Would Enter Massachusetts If Conditions Were Right

- Massachusetts is important and attractive state
 - Adjacent to New York, where WorldCom launched local residential service in late 1998 and has hundreds of thousands of local customers
 - Verizon uses similar systems to connect to competing carriers as in Pennsylvania, where WorldCom launched local residential service in August 2000
 - Substantial market opportunity with 2.4 million households
- UNE-Platform is only available at prices so high that WorldCom cannot enter, in addition to other problems with Verizon's (formerly Bell Atlantic, NYNEX, New England Tel.) systems

UNE-P Is Key to Widespread Local Residential Competition

- UNE-Platform necessary for ubiquitous residential competition
 - Cable/other facilities have limited reach, limited build-out
 - Non-UNE-P expansion slow, capital requirements high
 - Resale discount better than most states, but still a loser
 - Z-Tel offering one niche product at one price using UNE-P
 - \$49.99/month rate attractive only to high-end customers
 - No stand-alone local product offering
- Where UNE-P pricing is minimally acceptable (and other elements in place), WorldCom will enter:
 - New York entered 12/98
 - Texas entered 4/00
 - Pennsylvania entered 8/00
 - Michigan and Illinois targeted for entry in near term

Ongoing Price Squeeze Prevents Robust Local Competition

- Switching Rates that Were Found Reasonable in New York Where They Enabled Competition Are Not Reasonable in Massachusetts Where They Do Not
- NY Commission Acknowledges that Switching Rates Are Flawed Due to Verizon Misrepresentations
- Customer Usage Has Increased from Internet, Etc.
 - Per minute rates should be lower
 - Competitive consequences of switching element heightened
- Verizon Has Not Shown Loop Rates Are TELRIC
 - Loop rates appear to be excessive due to excessive cost of capital and possibly other factors
 - Verizon refusing to provide spreadsheet for loop costs
 - Verizon rebuffed WorldCom's efforts to check computations of loop rates

Comparison of Massachusetts UNE-P Pricing with States WorldCom Has Entered

	<u>MA--DTE</u>	<u>MA--Z-Tel</u>	<u>MA--10/13</u>	<u>NY</u>	<u>TX</u>	<u>PA</u>
Households (000)	2,376	2,376	2,376	5,973	5,117	3,398
Zone Density	100%	100%	100%	100%	100%	100%
<u>Revenue:</u>						
Local	\$26.65	\$26.65	\$26.65	\$32.74	\$22.97	\$22.42
Access	<u>\$4.34</u>	<u>\$4.34</u>	<u>\$4.34</u>	<u>\$4.13</u>	<u>\$4.90</u>	<u>\$5.38</u>
Total Revenue (1)	\$30.99	\$30.99	\$30.99	\$36.87	\$27.87	\$27.80
<u>Telco:</u>						
Unbundled switch port	\$4.49	\$4.49	\$2.00	\$2.50	\$2.90	\$1.90
Unbundled loop	\$15.66	\$15.66	\$15.66	\$14.81	\$14.15	\$14.01
UNE switching & transport (2)	<u>\$21.68</u>	<u>\$14.57</u>	<u>\$10.50</u>	<u>\$10.60</u>	<u>\$4.17</u>	<u>\$5.02</u>
Total Telco (3)	\$41.83	\$34.72	\$28.16	\$27.91	\$21.22	\$20.93
Gross Margin (line/month)	(\$10.84)	(\$3.73)	\$2.83	\$8.96	\$6.65	\$6.87

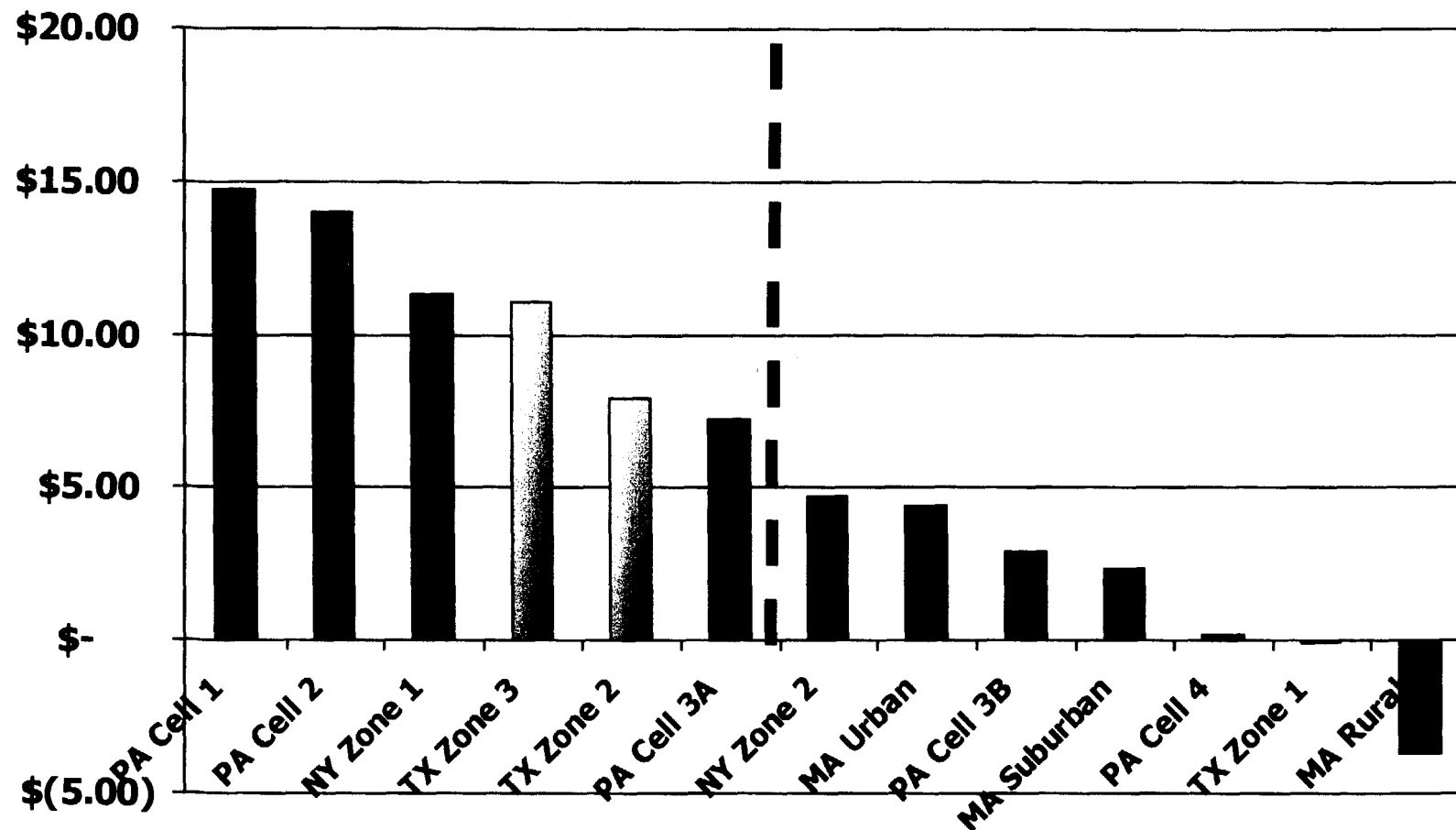
1 BOC retail rates, without discount. Includes line fee, usage, 1 feature (2 in TX), and SLC.

2 Reflects MA DTE's Sept. 7, 2000 order which reduced charges on intra-End Office calls, and slight revision in call-flow methodology.

3 Does not include Non-Recurring charges (NRCs).

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

Gross Margin by Zone in Massachusetts and States WorldCom Has Entered



MA Metro zone omitted as de minimis, as it contains only 2% of households in state.

Verizon's New Rates Should Not Be Considered in Current 271 Application

- Impropropriety of Verizon's Gamesmanship Apparent on Face of Oct. 13 Tariff Adopting Certain New York Rates
 - After four years, new rates filed on business day before comments from interested parties due
 - Support for rates not provided
- Disrespect for Governmental Agencies and Proper Process Must Be Rebuffed
- No Fair Opportunity for CLECs to Comment on (Much Less Use) New Rates, or DOJ or FCC to Fully Consider
- Verizon's 271 Application Must Be Judged Based on Facts Presented in Its Case as Filed, Despite Verizon Abandoning 1996 Rates

Considerations Previously Permitting Acceptance of NY Rates Are Not Present Here

- Massachusetts Regulatory Environment Unlike NY
 - Massachusetts Commission (DTE) Refuses to Open Up Pricing Docket
 - DTE Defends 1996 Rates as TELRIC
 - DTE Claims Price Squeeze is Irrelevant
 - DTE Refuses to Make Current Rates Subject to True-Up
- NY Commission Acknowledges that Switching Rates Are Flawed
 - Verizon Made Misrepresentations that Inflated Rates
- Pricing Case Under Way to Correct Rates in NY

More Recent and Better Pricing Data than New York's Are Now Available

- Unreasonable to Rely on Flawed 1997 NY Rates When More Recent and Better Pricing Data Now Available
 - Costs of Switching Have Declined Since MA and NY Cost Studies
- Recent Pennsylvania Proceedings Adopted Switching Rates Far Below Rates in NY
 - Upheld in State Court Appeal in October 2000
- Recent FCC Switching Cost Estimate Not Available When NY Decided Switching Costs
 - April 1997 NY Estimate: Average total cost \$193 per line
 - Data from New York Telephone depreciation studies, covers 33 switches purchased in 1993 and 1994
 - Nov. 1999 FCC Estimate: Average total cost \$117 per line
 - Data from depreciation studies (946 observations) and Rural Utilities Service (139 observations), covers switches purchased from 1989 - 1996
 - Found fixed and per line costs

Application Should Be Denied Because of Improper UNE Pricing

- DOJ opposed application in its Oct. 27 evaluation
 - "There are reasons to suspect that in some cases [UNE] prices have not been based on the relevant costs of the network elements"
 - "UNE rates were incorrectly calculated in the MA DTE's 1996 order"
- Massachusetts AG opposed in its comments
 - "Unrebutted record evidence indicates that Verizon's UNE switching prices are excessive, not TELRIC-based, and create a prices squeeze that is a barrier to market entry for Verizon's competitors"
- Massachusetts DTE is only participant willing to defend DTE rates as cost-based
 - DTE defense highlights problems with rates
- Verizon's section 271 application must be denied at this time

Appendices

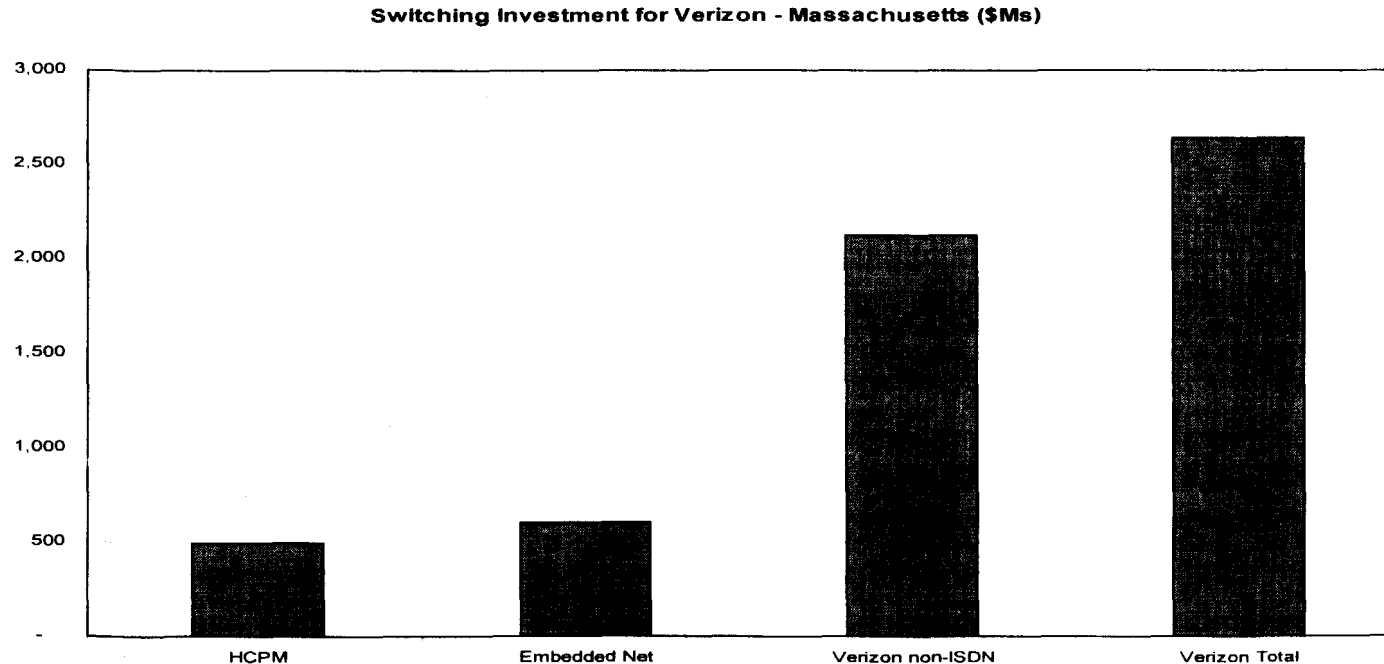
Summary of TELRIC Analysis of MA Switching Rates (Micro)

	Port	Usage
Installation Multiplier	33.0%	22.9%
Switch Discount Factor	55.0%	38.0%
Busy Hour Conversion Factor	0.0%	19.2%
Utilization Factor	9.9%	0.0%
Cost of Capital	7.6%	7.6%
Building Factor	3.4%	3.4%
Power Factor	2.4%	1.7%

- Compared to state approved rates, the effect of all these adjustments in Urban zone is to reduce switch port costs by 76% and switch usage costs by 62.9%
- Compared to Z-Tel “promotional” rates, the effect of all adjustments is to reduce switch port costs by 76% and switch usage costs by 47%

Total MA Switching Investment in Verizon Cost Study Is Unreasonably High (Macro)

- Switching investment is reported directly in Verizon's cost study workpapers as \$2.6 billion (or \$2.1 billion without ISDN, etc.)
- These investments can be compared to two other sources:
 - FCC's TELRIC cost model, the HCPM, which estimates \$0.5 billion
 - Embedded costs in Verizon's accounting records of \$0.6 billion



Massachusetts (10/13/00) - Verizon (by zone)

	<u>MA--STATE</u>	<u>METRO</u>	<u>URBAN</u>	<u>SUBURBAN</u>	<u>RURAL</u>
Households (000)	2,376	48	665	1,497	166
Zone Density	100%	2%	28%	63%	7%
<u>Revenue:</u>					
Local	\$26.65	\$26.65	\$26.65	\$26.65	\$24.53
Access	<u>\$4.34</u>	<u>\$4.34</u>	<u>\$4.34</u>	<u>\$4.34</u>	<u>\$4.34</u>
Total Revenue (1)	\$30.99	\$30.99	\$30.99	\$30.99	\$28.87
<u>Telco:</u>					
Unbundled switch port	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00
Unbundled loop	\$15.66	\$7.54	\$14.11	\$16.12	\$20.04
UNE switching & transport (3)	<u>\$10.50</u>	<u>\$10.41</u>	<u>\$10.50</u>	<u>\$10.50</u>	<u>\$10.50</u>
Total Telco (2)	\$28.16	\$19.95	\$26.61	\$28.62	\$32.54
Gross Margin	\$2.83	\$11.04	\$4.38	\$2.37	(\$3.67)

1 Includes line fee, usage, touch tone, 1 feature (call waiting @ \$2.84) and SLC. Reflects revenue in the Boston Area (~1/3 of Verizon-MA). Outside of this area, revenue would be \$2.12 lower or \$24.53. Therefore, revenue in the Suburban zone, andpossibly the Urban zone, is overstated (as is the revenue in the state average).

2 Does not include \$0.19 NRC.

3 Reflects MA DTE's 09/07/2000 order, whereby switching applies only once on Intra-EO calls. Also reflects slight revision in call flow methodology.

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

New York - Verizon (by zone)

	<u>State Average</u>	<u>Urban Zone 1</u>	→ <u>Rural Zone 2</u>
Households (000)	5,973	3,846	2,128
Distribution	100%	64%	36%
<u>Revenue:</u>			
Local	\$32.74	\$32.64	\$32.91
Access	<u>\$4.13</u>	<u>\$4.13</u>	<u>\$4.13</u>
Total Revenue (1)	\$36.87	\$36.77	\$37.04
<u>Telco:</u>			
Unbundled switch port	\$2.50	\$2.50	\$2.50
Unbundled loop	\$14.81	\$12.36	\$19.24
UNE switching & transport	<u>\$10.60</u>	<u>\$10.60</u>	<u>\$10.60</u>
Total Telco (2)	\$27.91	\$25.46	\$32.34
Gross Margin	\$8.96	\$11.31	\$4.70

1 Includes line fee, usage, 1 feature (Call Waiting @ \$5.19), and SLC. Reflects message rate product.

2 Does not include \$3.73 NRC.

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

Texas - SBC (by zone)

	<u>State Average</u>	<u>Rural Zone 1</u>	<u>Zone 2</u>	<u>Urban Zone 3</u>
Households (000)	5,117	1,061	2,398	1,657
Distribution	100%	21%	47%	32%
<u>Revenue:</u>				
Local	\$22.97	\$21.73	\$22.74	\$24.10
Access	\$4.90	\$4.90	\$4.90	\$4.90
Total Revenue (1)	\$27.87	\$26.63	\$27.64	\$29.00
<u>Telco:</u>				
Unbundled switch port	\$2.90	\$3.25	\$2.15	\$1.94
Unbundled loop	\$14.15	\$18.98	\$13.65	\$12.14
UNE switching & transport	\$4.17	\$4.44	\$3.91	\$3.85
Total Telco (2)	\$21.22	\$26.67	\$19.71	\$17.93
Gross Margin	\$6.65	(\$0.04)	\$7.93	\$11.07

1 Includes line fee, usage, 2 features (Call Waiting @ \$2.80, Caller ID @ \$6.15), above average LD, and SLC. Reflects unlimited local product for Texas.

2 Does not include \$30.29 NRC.

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

Pennsylvania - Verizon (by zone)

		Urban	→ Rural			
	State Average	Cell 1	Cell 2	Cell 3 "A"	Cell 3 "B"	Cell 4
Households (000)	3,398	226	618	1,364	184	1,007
Distribution	100%	7%	18%	40%	5%	30%
Revenue:						
Local	\$22.42	\$26.53	\$26.53	\$22.79	\$18.44	\$19.21
Access	<u>\$5.38</u>	<u>\$5.38</u>	<u>\$5.38</u>	<u>\$5.38</u>	<u>\$5.38</u>	<u>\$5.38</u>
Total Revenue (1)	\$27.80	\$31.91	\$31.91	\$28.17	\$23.82	\$24.59
Telco:						
Unbundled switch port	\$1.90	\$1.90	\$1.90	\$1.90	\$1.90	\$1.90
Unbundled loop (3)	\$14.01	\$10.25	\$11.00	\$14.00	\$14.00	\$17.50
UNE switching & transport	<u>\$5.02</u>	<u>\$5.02</u>	<u>\$5.02</u>	<u>\$5.02</u>	<u>\$5.02</u>	<u>\$5.02</u>
Total Telco (2)	\$20.93	\$17.17	\$17.92	\$20.92	\$20.92	\$24.42
Gross Margin	\$6.87	\$14.74	\$13.99	\$7.25	\$2.90	\$0.17

1 Includes line fee, usage, 1 feature (Call Waiting @ \$3.62), and SLC. Reflects Unlimited Band 1 product.

2 Does not include \$1.06 NRC.

3 The average loop rate corresponds to the tariffed rate to be effective 9/30/2000.

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)